

Press release

12. January 2010

Sentiment remains strong – ZEW/Erste indicator taking a second wind

- Sentiment and liquidity should help 1Q stock market performance, implied valuations indicate further reasonable upside for 2010. Some markets have recovery priced in already more than others.
- Growth is the crucial criterion for investment – still focus on early cyclicals, in the course of the year potentially a switch to more defensive investments.
- Sound upside potential for most markets to be reached in 2010 (e.g. Romania and Russia), with a further reduction of risk aversion as the driving forces.
- Better performance of the CEE markets compared to the Eurozone expected.

Erste Group analysts see a slow-down of the speed of improvement on the CEE equity markets, but not alarming, since the base effect is fading out and the current expectations are developing in an acceptable way. While inflation does not seem to be a pressing issue, expectations on inflation continue to rise. The imminent risk of rate hikes should also remain part of expectations for the coming quarters. In any case, sentiment combined with strong liquidity should continue to help markets deliver a strong showing in 1Q10.

OECD's Composite Leading Indicators (CLI) have clearly marked a turning point, confirming that the recovery of CEE equity markets is not a fiction. Reviewing the year 2009, in March a strong rally of markets in the CEE region started. Before that, recovery was blocked by tremendous risk aversion, triggered by disastrous reporting from rating agencies etc. The reversion of this extreme risk view led to a quite stellar performance of this region. This positive market movement has been prolonged by ever-increasing liquidity returning to markets and sentiment improving constantly.

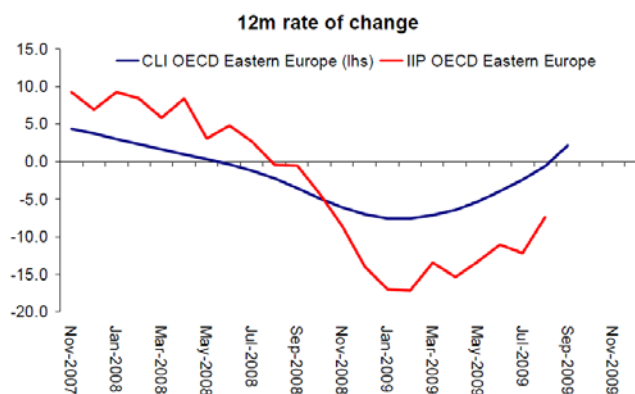
Some markets have been front-running fundamental recovery more than others. On a regional comparison Asian markets are running ahead of expectations more (as indicated by CLI) than the Euro area or the CEE markets. Although within the CEE region Turkey, Russia and Hungary are heading their respective recovery potential most strongly, Erste Group analysts would definitely not call this an overheating – nevertheless others still have more headroom. Therefore valuations still indicate sound upside for most markets to be reached over the course of 2010. Romania and Russia take the lead, with a further reduction in risk aversion and commodity focus as the driving forces.

Sector-wise cyclicals almost reached their potential upside entirely. Nevertheless Erste Group analysts expect those sectors to remain in focus in 1Q, driven by sentiment and further liquidity flows. On the course of the year, more defensive ideas might be in the focus, unless an unexpected boost to fundamentals occurs.

Outlook

“Economically, CEE markets will remain split into two parts. Those markets that found the bottom earlier – like Czech Republic or Slovakia – should be able to report better growth for 2010. Romania or Hungary as markets lagging behind in bottoming will also lag in terms of growth”, says Henning Eßkuchen, Co-Head of CEE Equity Research and author of the report. *“While growth will remain below-potential across the region, we nevertheless expect CEE to post better numbers than the Eurozone throughout 2010”,* Eßkuchen added.

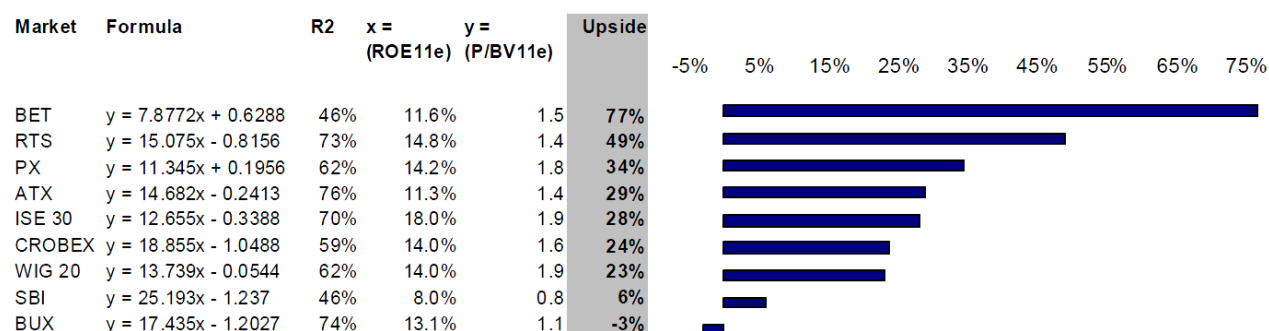
Composite Leading Indicator vs reference series



Source: OECD

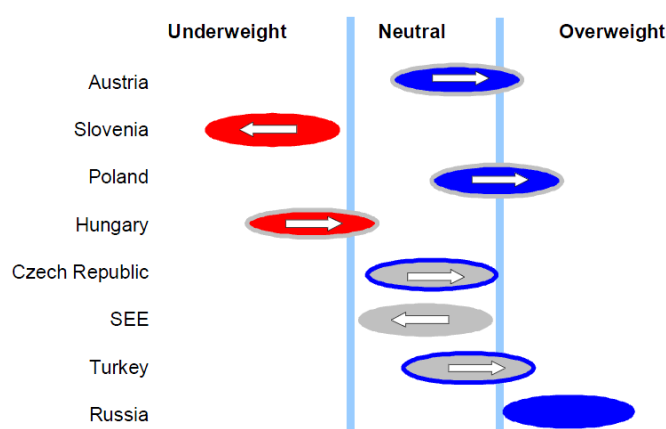
Country allocation

Implied upside potential by country



- **Romania** clearly shows the highest upside potential, since the market is still confronted with a high risk aversion. The indicated performance potential is greatly reliant on a major decrease in risk aversion and a certain liquidity discount. Also further indications of recovery are needed.
- **Russia** is a potential top performer that shows a very reliable regression outcome. Although this market is strongly dependent on the development of one commodity, namely the oil price.
- **Austria, Czech Republic, Turkey, Poland** and **Croatia** are all seen as potentially offering upsides of between 20% and 30%. The explanatory power of the regression is deemed as high enough to produce reasonable results.
- **Hungary** is ranging at the bottom of Erste Group's potential upside comparison. This market seems to be running ahead of expectations and is therefore front-running fundamental recovery more than others. As a result the upside potential is limited.

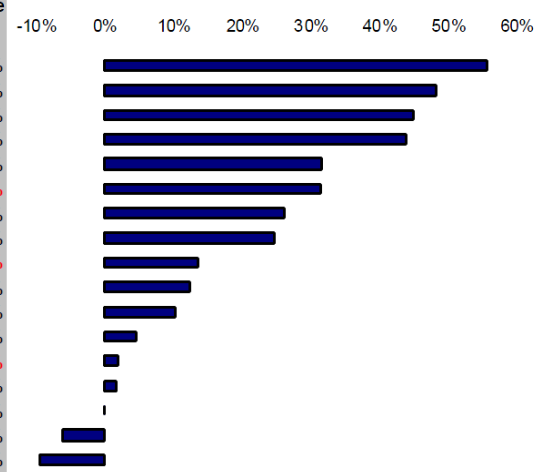
Country allocation proposal



Sector allocation

Implied upside potential by sector

Sector	Formula	R2	x = (ROE11e)	y = (P/BV11e)	Upside
Technology	$y = 17.617x - 0.088$	67%	9.8%	1.6	56%
Real Estate	$y = 6.4231x + 0.4239$	65%	5.9%	0.8	48%
Food & Beverages	$y = 27.101x - 1.1214$	68%	8.9%	1.3	45%
Utilities	$y = 11.451x + 0.4992$	66%	16.8%	2.4	44%
Personal Goods & Services	$y = 9.9762x + 0.5834$	51%	11.6%	1.7	32%
Media	$y = 9.6503x + 1.1664$	5%	13.2%	2.4	31%
Insurance	$y = 32.624x - 2.2578$	68%	10.9%	1.3	26%
Retail & Distribution	$y = 31.394x - 2.7606$	74%	18.6%	3.1	25%
Healthcare	$y = 18.551x - 0.4377$	20%	11.9%	1.8	13%
Telecom	$y = 7.1579x + 0.8812$	55%	14.2%	1.9	12%
Oil & Gas	$y = 11.978x - 0.4286$	71%	11.2%	0.9	10%
Banks	$y = 18.69x - 1.0844$	57%	14.4%	1.6	5%
Travel & Tourism	$y = 1.711x + 0.8355$	4%	9.5%	1.0	2%
Chemicals	$y = 13.277x - 0.2075$	70%	9.4%	1.0	2%
Industrial Goods & Services	$y = 14.909x - 0.3018$	66%	12.9%	1.6	0%
Construction & Materials	$y = 16.617x - 0.1775$	76%	6.1%	0.8	-6%
Basic Resources	$y = 6.5829x + 0.257$	70%	15.7%	1.3	-9%



Source: ExcelConnect, own calculations

The technology sector is still assumed as the top performer with the highest upside potential. Also for the sector real estate Erste Group analysts are tempted to trust in the indicated upside potential, the sector is still well below its historical valuation in terms of P/NAV. Hence further recovery is expected. Also food and beverages, as a basically rather defensive sector, is seen as posting upside as well. The book value of both sectors – real estate and food and beverages – is estimated to rise by about 10% in 2011.

On the positive side, banks have posted strong positive balances on earnings revisions up to 2011. On the other hand, even though ROEs are seen as recovering, they will remain well below historical levels, consequently not allowing for valuations as high as seen in the past. For insurance, the picture is somewhat similar. On the bottom of the assumed upside potential, cyclical sectors that are seen as posting zero or even negative returns are found. This would fit in with the general assumption that recovery euphoria has been priced in too much already in some cases like chemicals, industrial goods and services, construction and materials, as well as for basic resources.

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Erste Group is one of the leading financial providers in CEE. More than 51,000 employees serve 17.5 million clients in 3,000 branches in 8 countries (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia, Serbia, Ukraine). As of 30 September 2009 Erste Group has reached EUR 203.6 billion in total assets, a net profit of EUR 720.1 million and cost-income-ratio of 50.9%.